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Date: 30 MAR 1978 By: **25X1A2d**~~CONFIDENTIAL~~**CENTRAL INTELLIGENCE GROUP****INTELLIGENCE REPORT****COUNTRY** China**DATE:****INFO.** 21 August 1946**SUBJECT** Economic Information: Smuggling Activities, Kwangtung**DIST.** 5 December 1946**ORIGIN****25X1X6****25X1A6a**

This document is hereby regarded to be CONFIDENTIAL in accordance with the letter of 13 October 1946 from the Director of Central Intelligence to the Assistant of the United States

PAGES 5**SUPPLEMENT****ATTACHMENT** 1

1. Smuggling activities in and around Canton have reached the proportions of a major industry. Canton and Hongkong newspapers daily carry stories of the smuggling activities in both ports, and newspaper editorials in Chinese and English language newspapers have commented critically on the seeming inability of the Customs services to keep smuggling under control. The situation is such that the Canton newspaper "Kien Kwok Pao" on 26 July 1946 quoted an unnamed Chinese maritime Customs official to the effect that nearly fifty per cent of the goods coming from Hongkong into Canton at the present time are smuggled. The "Canton Daily Sun" on 2 July 1946 carried a Customs statement that while twenty-five millions CNC\$ in duties are collected daily by the Canton Customs, an additional fifty million CNC \$ duties are lost daily through the operations of smugglers. The same paper on 30 July 1946 stated that the revenue of the Commodity Tax Bureau has been cut by fifty per cent in the past three months because of the influx of smuggled goods. On 4 August 1946 the "Kien Kwok Pao" printed an item saying that over one hundred bales of cotton yarn were being transported to Hongkong daily. Since the Chinese Government at the beginning of 1946 placed cotton yarn on the list of commodities whose export is prohibited, the inference must obviously be that the yarn is smuggled.

2. In addition to the loss of tax revenue, smuggling has had the effect of hampering the rebuilding of a number of local industries such as chemicals, cosmetics, paper and rubber goods, which cannot produce at a price and quality to compete with foreign articles on which no duty has been paid; in some cases, notably cigarettes and match manufacture, local industries already established have been effectively destroyed. The Canton "Kien Kwok Pao" stated 13 July 1946 that whereas ninety-nine cigarette factories were operating in Canton after the Japanese surrender, the present number is only ten. On 13 August 1946 the "Canton Tai Kwong Pao" cited "authoritative economic circles" as saying that local industries are in a critical condition because of the foreign goods which have appeared on the market.

3. While some items such as cotton yarn and wolfram ore are smuggled out of South China, the main flow consists of foreign goods coming in. But whether the goods go out or in, the main centers of the traffic are Hongkong and Canton. Hongkong is the port where

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the foreign goods are discharged from the ocean-going ships; Canton is the main distributing center supplying the South China demand. It is reported that there are two types of organizations engaged in the smuggling business.

a. The first of these is the small unit composed of from five to seven persons having a total capital of about 5000 Hongkong Dollars contributed in equal shares by the various partners. These units deal in goods which can be handled in small quantities, such as cigarettes, cosmetics and tinned foodstuffs. Each unit has its own list of customers and generally specializes in a particular commodity. One route used is the Canton Kowloon Railway. The unit has close contact with the mechanics, firemen, station employees and the customs inspectors. Goods are placed in gunny sacks, taken into the Kowloon station at night through the connivance of station employees, and then concealed in the coal tender ready for the trip next morning to Canton. At a pre-arranged spot on the outskirts of Canton the sacks are dropped from the moving train and are picked up by agents of the smugglers who take the goods to the city by truck or bus. The railroad employees concerned receive ten per cent of the total cost of the goods. The individual shareholders in these small units usually are also active workers in the smuggling process, so that the total expense of the operation is cut down. It is estimated that a total of ten-thousand people are engaged in this traffic and that forty per cent of the passengers travelling on the railway from Hongkong are smuggling. It is further estimated that seventy per cent of these travelling smugglers are women.

Another route by the small scale smugglers is the Canton-Kowloon Highway, in which case the goods are taken by truck to the borders of the New Territories near Shenchuan and there divided into small parcels which are carried across the Shenchuan River at one of several fords; Hongkong-Canton steamship lines are also used, in which case the goods are taken aboard in small lots by people apparently seeing friends off to Canton. After the goods come aboard they are handed to crew members who conceal them in the coal bunkers. When the vessel reaches Canton, the contraband is either taken off at night when the Customs inspectors have gone from the dock, or is loaded into small boats which come along the offshore side of the ship in broad daylight. In some cases the goods are even thrown overboard to persons swimming alongside the ship as it docks. (Source: Wing Sun Company, Cigarette dealers, Taiping Road, Canton.)

b. The second type of organization used by the smugglers is the large-scale, well-organized gang. Such gangs have large capital, good contacts with high government officials, and operate under the protection of armed guards, often Chinese Army or Navy personnel. The large gangs use two main methods to transport goods between Hongkong and Canton. The first is the overland method, using either the railway or the highway. The Canton CNRRA office has advertised for tenders for the transportation of UNRRA goods from Hongkong to Canton. The successful bidder then has the job of hauling "relief" goods by truck or rail to Canton and way stations, unhampered by customs inspections. It is estimated that eighty per cent of the flour and tinned goods in Canton come via this method. It is assumed that some bona fide relief supplies also enter in the same way.

The second method used by the large organizations is to ship goods between Hongkong and Canton by sea. In this case the goods are carried in vessels of the Chinese navy, flying the Chinese naval flag and operated by naval personnel. This is the origin of the phrase that has appeared frequently in the press, "smugglers in uniform". The Chinese Navy in Canton has nine boats engaged in the smuggling trade, each boat

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capable of carrying a cargo of approximately one hundred and thirty tons. The boats do not operate on a regular schedule, but one leaves for Hongkong from Canton on an average of every other day, with a similar frequency at the other end of the trip. The main types of cargo carried from Canton to Hongkong are cotton yarn, Chinese piece goods, wood oil and cassia bark. From Hongkong to Canton the main cargoes are flour and tinned foodstuffs. One of the organizations in Hongkong which handles large quantities of goods destined for Canton by the way of the navy is the Yuan Cheong Hong (遠昌行), located on the eighth floor of the Luk Yau Building (隆裕行), Queens Road Central, Hongkong. This is a large import/export company with an established reputation which has added a smuggling department since the Japanese surrender, and handles not only its own goods but also those of other people on a commission basis. Similar companies exist in Canton.

(Source: A Chinese naval Captain who is himself engaged in the trade.)

4. A thorough investigation of the profits to be made by smuggling goods into Canton has not been made, but a fairly typical example seems to be that of Nylon stockings. These sell in Hongkong at a retail price of approximately HK\$20.-which is about CNC\$ 11,000 at the black market exchange rate prior to 19 August 1946. The same stockings sell at a retail price of CNC\$ 20,000 in Canton, and if the cost of smuggling be assumed as about ten per cent of the Hongkong purchase price (as was stated in the case of the small organizations) the profit is considerable.

The profit of smuggling goods from Canton to Hongkong can be seen in cotton yarn. The Canton papers "Wah Chao Pao" and "Kien Kwok Pao" of 11 August 1946 published Hongkong and Canton prices of cotton yarn of various types. The average price per bale of 400 lbs. is CNC\$200,000 higher in Hongkong than in Canton; and the Chinese naval informant quoted a fixed smuggling cost of CNC\$100,000 per bale, which includes pick-up and delivery charges. The cotton smuggling business is so well-established that it is common practice for Canton money exchange shops to buy cotton and ship it to Hongkong, agreeing to pay cash three days after the purchase, plus three days interest on the purchase price. The interest is CNC\$ 5000 per million per day, and the money for the cotton invariably comes back from Hongkong on the third day.

5. A cursory survey of the Canton Retail Shops Made by Source on 16 August showed the following prices for imported (mainly smuggled) goods.

CIGARETTES (Obtainable at Wing Sun Hong, Taiping Rd.)

<u>Brand</u>	<u>Price</u>	<u>Unit</u>
Phillip Morris (new)	CNC\$530	Pkg.
Camel (new)	580	"
Old Gold	370	"
Dunhill (Canada)	380	"
Marshall (England)	510	"
Abdullah (England)	390	"
Chelsea	380	"

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~~CONFIDENTIAL~~TINNED-GOODS (Obtainable at all provision stores on Taiping Rd.)

<u>Article & Brand</u>	<u>Price</u>	<u>Unit</u>
Nestle's Milk Powder	CNS\$4,000	1 lb. tin
Horlick's Malted Milk	3,800	1 lb. tin
Quaker Oats (paper pkg)	850	1 1/4 lb. pkg.
Ovaltine	3,000	8 oz.
Del Monte Fruit Cocktail	2,500	1 lb.
Butter	2,000	1 lb.
Cheese	1,500	1 lb.
Coffee (Hill's)	2,200	1 lb.

COSMETICS (Obtainable at all foreign goods stores)

Cleansing Cream	3,000	Medium Size (each)
Skin Refreshener	5,900	Medium Size (each)
Pan-Cake Make-Up (Standard)	7,000	Medium Size (each)
Eye-lash Makeup (refills)	1,500	Medium Size (each)
Society Face Powder	7,000-10,000	Medium Size (each)
Lip Stick	1,500-2,000	Medium Size (each)
Rouge	1,500	Medium Size (each)
Colgate's Tooth Paste	1,500	Medium Size (each)

MISCELLANEOUS (Obtainable at Ha Kau Po and other foreign goods stores)

Elasti-glass Belt	7,000-15,000	Each
Arrow Shirts	50,000	Each
Silk Stockings (Morley)	8,000	per pair
Silk Socks (men's)	1,500-4,000	per pair
Combs	2,000-4,000	Each
Threads "CHAIN" brand 40"400yds.	250-900	Each
Ladies' Handbags	18,000-35,000	Each

CHEMICAL & INDUSTRIAL GOODS

Sulphuric Acid 65%	C\$850	per lb.
Glycerine	1,700	per lb.
Arabic Gum	410	"
Vaseline (White)	400	"
Vaseline (Yellow)	230	"
Caustic Soda	444,000	per 400 lbs.
Soda Ashes	34,000	per cwt.
Soda Powder	16,000	"
Shellac	222,000	"
Wax (White)	100,000	per picul
Zinc Powder 99%	520	per lb.
Cocoon Oil (Singapore)	110,000	per picul
Alcohol	135,000	per 100 lbs.
Bleaching Powder	18,000	per cwt.
Sacharin (Monsando)	64,000	per 1 lb. tin
Gasoline (White)	82,500	per 52 gallons
Gasoline (Yellow)	78,000	per 52 gallons
American Resin	10,000	per picul

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Article & Brand	PAPER Price	Unit
Wrapping Paper (Yellow)	CN\$850	per lb.
Newspaper	42,000	per rm.
Wax Paper (White)	128,000	per rm.
Wax Paper (White)	128,000	per 16 lbs.
Typewriting Paper	17,000	per rm.

6. Prewar Smuggling

The estimated amount of smuggling in and out of Canton during the years 1933-37 is given in the following table:

Year		Incoming	Outgoing
1933	CNC	41,258,000.	
1934	"	39,677,000.	1,293,000.
1935	"	42,314,000.	1,203,000.
1936	"	43,478,000.	4,151,000.
1937	"	39,351,000.	7,681,000.

Incoming contraband included sugar, gasoline, piece goods, textiles, ginseng, diamonds and other precious stones, dyestuffs and chemicals. Outgoing contraband consisted of wolfram, wood oil, lead and raw silk.

(Source: THE PRESENT SITUATION OF KWANGTUNG PROVINCE, published in Canton in Japanese in 1943, quoting the record of the Kwangtung Provincial Bank.)

It is estimated by the Wing Sun Company that 12,000 people were engaged in smuggling in the Canton area immediately preceding the Pacific War.

7. Smuggling Routes

Although the main routes in use at the present time have been covered in this report, there are a number of other routes which have been traditionally used by the Kwangtung smugglers and are still used to some extent. The complete list of routes having Hongkong as the hub is as follows:

- From Hongkong to Canton direct via sea route.
Canton-Kowloon Railway and Canton Kowloon Highway
- From Hongkong to Chiangmen (113-06, 22-34), thence to the interior
- From Hongkong to Macao and via Shihch'i (石岐), Chungshan (113-36, 22-22) to Canton.
- From Kowloon to Tap'o via Shayitung (沙魚涌), thence to the interior and East River Areas.
- From Kowloon to Shataukok (沙頭角), approximately 114-15, 22-30, through Kueitung (葵涌), approximately 114-28, 22-35, thence to the interior.
- From Hongkong to Pingshan (114-22, 22-41) and Jenshan (112-59, 21-59) in Bias Bay
- From Hongkong to Yangchiang (111-53, 21-52).
- From Hongkong to Kuanghai (112-48, 21-58) and Chihchi (112-59, 21-59)

A sketch of these routes is attached.